IMF
SURVEY
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Supplement on the IMF

IMF Workload Surged As Ex-Soviet States, Other Countries Joined

Since late 1991, IMF membership has surged from 155 to 173. After the constituent states of the former Soviet Union redefined their relationship in December 1991, 14 of them—Armenia, Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, the Russian Federation, Turkmenistan, Ukraine, and Uzbekistan—became IMF members by the end of September 1992. Albania, Marshall Islands, and San Marino also joined, as did Switzerland after a national referendum secured the approval of the electorate. Consequently, the IMF's membership has become nearly universal.

IMF Managing Director Michel Camdessus (left) and Acting Prime Minister Yegor Gaidar of the Russian Federation met in Washington in February.

The sudden surge in IMF membership placed a heavy burden on the IMF's staff and Executive Board: numerous fact-finding, consultation, and technical assistance missions needed to be dispatched, particularly to the former Soviet states seeking to make the difficult transition to market-based economies. On August 5, 1992, the Executive Board approved a five-month stand-by arrangement with the Russian Federation permitting it to draw up to SDR 719 million (special drawing

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The next World Bank and IMF Annual Meetings will take place September 28-30, 1993 in Washington.

(continued from front page) rights), or about $1.04 billion, in its first credit tranche. This constitutes the first phase in the expected collaboration between the IMF and the Russian Federation as the latter seeks to stabilize its economy, implement structural reform, and coordinate monetary arrangements with other states of the former Soviet Union.

During financial year 1992 (May 1, 1991–April 30, 1992), the IMF reviewed and modified its facilities and policies as follows:

- Eleven low-income developing members were added to the list of countries eligible to make purchases under the structural adjustment facility (SAF) and the enhanced structural adjustment facility (ESAF).
- The deadline for commitments of resources under new ESAF arrangements was extended by one year to the end of November 1993. Within this deadline, eligible members may receive an additional (fourth) year of ESAF support provided that they (1) have satisfactory track records of implementing structural reform, and (2) have adopted strong measures in

IMF Provides Financial Assistance to Overcome Balance of Payments Difficulties

Purchases and Repurchases

A member country makes a purchase, or drawing, from the IMF by exchanging its own currency for an equivalent amount of other members' currencies or special drawing rights (SDRs) held by the IMF. Over a prescribed period, the country is required to repurchase—buy back—its own currency from the IMF with other members' currencies or SDRs. The IMF levies charges on purchases, and the net effect of a member's purchase and its subsequent repurchase is very similar to that of its receiving a loan at interest and subsequently repaying it.

Tranche Policies

First Credit Tranche. Member demonstrates reasonable efforts to overcome balance of payments difficulties in program. Purchases are not phased and performance criteria are not required. Repurchases are made in 3 1/4–5 years.

Upper Credit Tranches. Member must have a substantial and viable program to overcome its balance of payments difficulties. Resources normally provided in the form of stand-by arrangements that provide purchases in installments linked to the observance of previously specified performance criteria. Repurchases are made in 3 1/4–5 years.

Extended Fund Facility

Medium-term program aims at overcoming structural balance of payments maladjustments. A program generally lasts for three years, although it may be lengthened to four years where this would facilitate sustained policy implementation and achievement of balance of payments viability over the medium term. Program initially identifies policies and measures for first 12-month period in detail. Resources are provided in the form of extended arrangements that include performance criteria and drawings in installments. Repurchases are made in 4 1/2–10 years.

Enlarged Access Policy

Augments resources available under stand-by and extended arrangements. Applicable policies on conditionality, phasing, and performance criteria are the same as under the credit tranches and the extended Fund facility. Repurchases are made in 3 1/2–7 years.

Structural Adjustment Facility

Resources are provided on concessional terms to low-income developing member countries facing protracted balance of payments problems, in support of medium-term macroeconomic and structural adjustment programs. Member develops and updates, with assistance of the Fund and the World Bank, a medium-term policy framework for a three-year period, which is set out in a policy framework paper (PFP). Detailed annual programs are formulated prior to disbursement of annual loans and include quarterly benchmarks used to assess performance. Repayments are made in 5 1/2–10 years.

Enhanced Structural Adjustment Facility

Objectives, eligibility, and basic program features of this facility parallel those of the structural adjustment facility (SAF); differences relate to provisions for access, monitoring, and funding. A PFP and a detailed annual program are prepared each year. Arrangements include quarterly benchmarks, semiannual performance criteria, and, in most cases, a midyear review. Adjustment measures are expected to be particularly strong, aiming to foster growth and to achieve a substantial strengthening of the balance of payments position. Loans are disbursed semiannually, and repayments are made in 5 1/2–10 years.

Compensatory and Contingency Financing Facility

The compensatory element provides resources to a member for a shortfall in export earnings or an excess in cereal import costs that is due to factors largely beyond the member's control. The contingency element helps members with IMF-supported adjustment programs to maintain the momentum of adjustment efforts in the face of a broad range of unanticipated, adverse external shocks. Repurchases are made in 3 1/4–5 years.

Buffer Stock Financing Facility

Resources help finance a member's contribution to an approved international buffer stock scheme. Repurchases are made in 3 1/4–5 years.

response to external economic disturbances, or shocks.

In addition, the IMF continued to implement the strengthened cooperative strategy for resolving the problem of members' overdue obligations (arrears) to the IMF.

Financial Support

The IMF approved 29 new arrangements during fiscal year 1992, including 21 stand-by arrangements (totaling SDR 5.6 billion), 2 extended arrangements (SDR 2.5 billion), 1 SAF arrangement (SDR 3.2 billion), and 5 ESAF arrangements (SDR 636.6 million). In addition, 8 countries made drawings under the compensatory and contingency financing facility (CCFF) totaling SDR 1.4 billion. At the end of the financial year, the number of countries that had outstanding arrangements with the IMF totaled 51, which tied the record set at the end of FY 1990.

Quota Review and Third Amendment

In June 1990, the Board of Governors authorized an increase of 50 percent of IMF quotas, to approximately SDR 135.2 billion, under the IMF's Ninth General Review of Quotas. (Because of the subsequent membership of 22 additional countries, total quotas will increase to about SDR 146.0 billion once the quota increase becomes effective.) The minimum participation requirement for the quota increase was met in February 1992; it will not take effect, however, until the proposed Third Amendment of the IMF's Articles of Agreement—which provides for the suspension of voting and related rights of members that do not fulfill their financial obligations to the IMF—is approved by the membership (by 60 percent of members having 85 percent of total votes in the IMF).

Organization . . .

IMF Board of Governors Exercises Many Powers Through Executive Board

The organizational structure of the IMF is set out in its Articles of Agreement, which entered into force in December 1945. The Articles, which have since undergone two amendments, provide for a Board of Governors, an Executive Board, a Managing Director, a staff of international civil servants, and a Council.

The highest authority of the IMF is the Board of Governors, which consists of a Governor and an Alternate appointed by each of the IMF's member countries. The Governors are usually ministers of finance or central bank governors but sometimes hold other positions of comparable rank.

The Articles, as amended in 1978, provide that the Board of Governors may establish a Council as a permanent body of the IMF at the ministerial or comparable level to supervise the management and adaptation of the international monetary system and to consider any proposals to amend the Articles of Agreement. The Board of Governors has not established a Council but has continued to rely on the Interim Committee, which was established at the 1974 Annual Meetings.

The Interim Committee, a temporary advisory body, has a composition and scope of concern comparable with those contemplated for the Council but does not have decision-making authority under the IMF's Articles. The Joint Ministerial Committee on the Transfer of Real Resources to Developing Countries (the Development Committee) was also established in 1974 by the Boards of Governors of the IMF and the World Bank

Exterior view of the Queen Sirikit National Convention Center in Bangkok, where the IMF and World Bank Annual Meetings were held in October 1991.

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to consider development issues.

The Board of Governors meets once a year at the Annual Meetings to review the work of the IMF but may meet or vote by mail at other times. It has delegated many of its powers to the Executive Board, which conducts the IMF's day-to-day business at its headquarters in Washington. The Executive Board currently consists of 22 Executive Directors. As a result of the Regular Election of Executive Directors held on September 23, 1992, there will be 24 Executive Directors effective November 1, 1992. Of these, 5 have been appointed by individual countries and the other 19 have been elected by groups of the remaining members.

The Executive Board deals with a wide variety of policy, operational, and administrative matters, which include surveillance of members' exchange rate policies, provision of IMF financial assistance to member countries, consultations with members, and comprehensive studies on important issues.

The Executive Board also selects the Managing Director of the IMF, who serves as its Chairman. The Managing Director, under the direction of the Executive Board, conducts the ordinary business of the IMF.

EXECUTIVE BOARD

(effective November 1, 1992)[1]

DIRECTOR[2]
Casting Votes[3] of
(Percent of IMF total)

APPOINTED

THOMAS C. DAWSON II
United States
(179,433–17.64 percent)

DAVID PERETZ
United Kingdom
(62,190–6.12 percent)

BERND GOOS
Germany
(54,287–5.34 percent)

JEAN-PIERRE LANDAU
France
(45,078–4.43 percent)

HIROO FUKUI
Japan
(42,483–4.18 percent)

ELECTED

JACQUES DE GROOTE (Belgium)
Austria, Belarus, Belgium, Czechoslovakia, Hungary, Kazakhstan, Luxembourg, Turkey
(50,348–4.95 percent)

G.A. POSTHUMUS (Netherlands)
Armenia, Bulgaria, Cyprus, Georgia, Israel, Moldova, Netherlands, Romania, Ukraine
(46,835–4.61 percent)

ROBERTO MARINO (Mexico)
Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, Venezuela
(44,401–4.37 percent)

RENATO FILOSA (Italy)
Albania, Greece, Italy, Malta, Portugal, San Marino
(39,122–3.85 percent)

C. SCOTT CLARK (Canada)
Antigua and Barbuda, Bahamas, The, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines
(38,709–3.81 percent)

INGIMUNDUR FRIDRIKSSON (Iceland)
Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden
(34,696–3.41 percent)

E.A. EVANS (Australia)
Australia, Kiribati, Korea, Marshall Islands, Mongolia, New Zealand, Papua New Guinea, Philippines, Seychelles, Solomon Islands, Vanuatu, Western Samoa
(34,019–3.35 percent)

MUHAMMAD AL-JASSER (Saudi Arabia)
Saudi Arabia
(32,274–3.17 percent)

L.J. MWANANSHIKU (Zambia)
Angola, Botswana, Burundi, Ethiopia, Gambia, The, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe
(29,388–2.89 percent)

KONSTANTIN G. KAGALOVSKY (Russian Federation)
Russian Federation
(29,010–2.85 percent)

G.K. ARORA (India)
Bangladesh, Bhutan, India, Sri Lanka
(28,208–2.77 percent)

DANIEL KAESER (Switzerland)
Azerbaijan, Kyrgyzstan, Poland, Switzerland, Turkmenistan, Uzbekistan
(28,160–2.77 percent)

ALEXANDRE KAFKA (Brazil)
Brazil, Colombia, Dominican Republic, Ecuador, Guyana, Haiti, Panama, Suriname, Trinidad and Tobago
(27,582–2.71 percent)

ABBAS MIRAKHOR
(Islamic Republic of Iran)
Afghanistan, Algeria, Ghana, Iran, Islamic Republic of, Morocco, Pakistan, Tunisia
(27,404–2.69 percent)

J.E. ISMAEL (Indonesia)
Fiji, Indonesia, Lao People's Dem. Rep., Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga, Viet Nam
(27,094–2.66 percent)

CHE PEIQIN (China)
China
(24,159–2.38 percent)

A. GUILLERMO ZOCCALI (Argentina)
Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay
(23,373–2.30 percent)

CORENTINO V. SANTOS (Cape Verde)
Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, Sao Tome and Principe, Senegal, Togo, Zaïre
(18,940–1.86 percent)

A. SHAKOUR SHAALAN (Egypt)
Bahrain, Egypt, Kuwait, Lebanon, Maldives, Qatar, Syrian Arab Republic, United Arab Emirates
(18,849–1.85 percent)

[1]This table is based on information available as of September 30, 1992.
[2]An Alternate for each Executive Director is to be chosen by November 1, 1992.
[3]As of September 30, 1992, members' votes added to 1,017,045, and votes in the Executive Board added to 986,044. The former total included the votes of four countries–Cambodia, Somalia, South Africa, and Yugoslavia–that did not participate in the 1992 Regular Election of Executive Directors and five countries–Iraq, Jordan, Libya, Oman, and the Republic of Yemen–that voted in the 1992 Regular Election for a candidate who was not elected. Before November 1, 1992, each of the countries in the latter group may join a constituency by designating an elected Executive Director to cast its votes.

Quotas . . .

Members' Quotas Guide Their Access to IMF Resources

Each member of the IMF has a quota, expressed in SDRs, that is equal to its subscription in the IMF. The quota, which reflects the relative size of the member's economy, is the most fundamental element in its financial and organizational relations with the IMF. It determines a member's voting power in the IMF, which is based on 1 vote for each SDR 100,000 of its quota *plus* the 250 basic votes to which each member is entitled. Each member's quota also determines its access to the financial resources of, and its share in allocations of SDRs by, the IMF. A member is generally required to pay about 25 percent of its quota in SDRs or in currencies of other members selected by the IMF, with their concurrence; it pays the remainder in its own currency.

Initial Quotas

The initial quotas of the original members of the IMF were related to, but not strictly determined by, the Bretton Woods formula, which included such basic variables as average import and export flows, gold holdings and dollar balances, and national income. This formula served as the basis for determining initial quotas of new members until the early 1960s.

In April 1963, a number of other quota formulas were introduced, which, taken together, were used in determining initial quotas of new members and increases in quotas. These formulas employ economic data relating to GDP, current account transactions, the variability of current receipts, and official reserves.

Quotas of New Members

When a country applies for IMF membership, the IMF staff calculates a quota for the new member and compares it with the quotas of existing members of similar economic size and characteristics. The staff then prepares a paper for the consideration of a committee of the Executive Board. After the country has agreed to the terms and conditions for membership—including the amount of the initial quota—proposed by the committee, the full Executive Board considers the committee's recommendations and, upon its approval, forwards a proposed membership resolution to the IMF's Board of Governors. After the membership resolution is approved by the Board of Governors and appropriate legal and procedural steps are effected, a representative of the country signs the Articles of Agreement and it subsequently becomes a member.

As of September 30, 1992, 173 countries were members of the IMF, and total quotas provided for under the Ninth General Review of Quotas amounted to about SDR 146.0 billion. The newest member, San Marino, joined the IMF in September 1992. It became the seventeenth member to join the IMF during the past six months; the others were Armenia, Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Marshall Islands, Moldova, the Russian Federation, Switzerland, Turkmenistan, Ukraine, and Uzbekistan. Membership resolutions for the remaining state of the former U.S.S.R.—Tajikistan—and for the Federated States of Micronesia have been approved by the Board of

Minister of Finance Otto Stich signs the IMF's Articles of Agreement on behalf of Switzerland.

IMF Quotas

(million SDRs)

Member	As of 9/30/92	Under Ninth General Review*
Afghanistan	86.7	120.4
Albania[1]	25.0	35.3
Algeria	623.1	914.4
Angola	145.0	207.3
Antigua and Barbuda	5.0	8.5
Argentina	1,113.0	1,537.1
Armenia[1]	45.0	67.5
Australia	1,619.2	2,333.2
Austria	775.6	1,188.3
Azerbaijan[1]	78.0	117.0
Bahamas, The	66.4	94.9
Bahrain	48.9	82.8
Bangladesh	287.5	392.5
Barbados	34.1	48.9
Belarus[1]	187.0	280.4
Belgium	2,080.4	3,102.3
Belize	9.5	13.5
Benin	31.3	45.3
Bhutan	2.5	4.5
Bolivia	90.7	126.2
Botswana	22.1	36.6
Brazil	1,461.3	2,170.8
Bulgaria[1]	310.0	464.9
Burkina Faso	31.6	44.2
Burundi	42.7	57.2
Cambodia	25.0	25.0
Cameroon	92.7	135.1
Canada	2,941.0	4,320.3
Cape Verde	4.5	7.0
Central African Rep.	30.4	41.2
Chad	30.6	41.3
Chile	440.5	621.7
China	2,390.9	3,385.2
Colombia	394.2	561.3
Comoros	4.5	6.5
Congo, People's Republic of	37.3	57.9
Costa Rica	84.1	119.0
Côte d'Ivoire	165.5	238.2
Cyprus	69.7	100.0
Czechoslovakia[1]	590.0	847.0
Denmark	711.0	1,069.9
Djibouti	8.0	11.5
Dominica	4.0	6.0
Dominican Republic	112.1	158.8
Ecuador	150.7	219.2
Egypt	463.4	678.4
El Salvador	89.0	125.6
Equatorial Guinea	18.4	24.3
Estonia[1]	31.0	46.5
Ethiopia	70.6	98.3
Fiji	36.5	51.1
Finland	574.9	861.8
France	4,482.8	7,414.6
Gabon	73.1	110.3
Gambia, The	17.1	22.9
Georgia[1]	74.0	111.0
Germany	5,403.7	8,241.5
Ghana	204.5	274.0
Greece	399.9	587.6
Grenada	6.0	8.5
Guatemala	108.0	153.8
Guinea	57.9	78.7
Guinea-Bissau	7.5	10.5
Guyana	49.2	67.2
Haiti	44.1	60.7
Honduras	67.8	95.0
Hungary	530.7	754.8
Iceland	59.6	85.3
India	2,207.7	3,055.5
Indonesia	1,009.7	1,497.6
Iran, Islamic Rep. of	660.0	1,078.5
Iraq	504.0	864.8
Ireland	343.4	525.0
Israel	446.6	666.2
Italy	2,909.1	4,590.7
Jamaica	145.5	200.9
Japan	4,223.3	8,241.5
Jordan	73.9	121.7
Kazakhstan[1]	165.0	247.5
Kenya	142.0	199.4
Kiribati	2.5	4.0
Korea	462.8	799.6
Kuwait	635.3	995.2
Kyrgyzstan[1]	43.0	64.5
Lao People's Dem. Rep.	29.3	39.1
Latvia[1]	61.0	91.5
Lebanon	78.7	146.0
Lesotho	15.1	23.9
Liberia	71.3	96.2
Libya	515.7	817.6
Lithuania[1]	69.0	103.5
Luxembourg	77.0	135.5
Madagascar	66.4	90.4
Malawi	37.2	50.9
Malaysia	550.6	832.7
Maldives	2.0	5.5
Mali	50.8	68.9
Malta	45.1	67.5
Marshall Islands[1]	1.5	2.5
Mauritania	33.9	47.5
Mauritius	53.6	73.3
Mexico	1,165.5	1,753.3
Moldova[1]	60.0	90.0
Mongolia[1]	25.0	37.1
Morocco	306.6	427.7
Mozambique	61.0	84.0
Myanmar	137.0	184.9
Namibia[1]	70.0	99.6
Nepal	37.3	52.0
Netherlands	2,264.8	3,444.2
New Zealand	461.6	650.1
Nicaragua	68.2	96.1
Niger	33.7	48.3
Nigeria	849.5	1,281.6
Norway	699.0	1,104.6
Oman	63.1	119.4
Pakistan	546.3	758.2
Panama	102.2	149.6
Papua New Guinea	65.9	95.3
Paraguay	48.4	72.1
Peru	330.9	466.1
Philippines	440.4	633.4
Poland	680.0	988.5
Portugal	376.6	557.6
Qatar	114.9	190.5
Romania	523.4	754.1
Russian Federation[1]	2,876.0	4,313.1
Rwanda	43.8	59.5
St. Kitts and Nevis	4.5	6.5
St. Lucia	7.5	11.0
St. Vincent and the Grenadines	4.0	6.0
San Marino[1]	6.5	10.0
Sao Tome and Principe	4.0	5.5
Saudi Arabia	3,202.4	5,130.6
Senegal	85.1	118.9
Seychelles	3.0	6.0
Sierra Leone	57.9	77.2
Singapore	92.4	357.6
Solomon Islands	5.0	7.5
Somalia	44.2	60.9
South Africa	915.7	1,365.4
Spain	1,286.0	1,935.4
Sri Lanka	223.1	303.6
Sudan	169.7	233.1
Suriname	49.3	67.6
Swaziland	24.7	36.5
Sweden	1,064.3	1,614.0
Switzerland	1,700.0	2,470.4
Syrian Arab Republic	139.1	209.9
Tanzania	107.0	146.9
Thailand	386.6	573.9
Togo	38.4	54.3
Tonga	3.25	5.0
Trinidad and Tobago	170.1	246.8
Tunisia	138.2	206.0
Turkey	429.1	642.0
Turkmenistan[1]	32.0	48.0
Uganda	99.6	133.9
Ukraine[1]	665.0	997.3
United Arab Emirates	202.6	392.1
United Kingdom	6,194.0	7,414.6
United States	17,918.3	26,526.8
Uruguay	163.8	225.3
Uzbekistan[1]	133.0	199.5
Vanuatu	9.0	12.5
Venezuela	1,371.5	1,951.3
Viet Nam	176.8	241.6
Western Samoa	6.0	8.5
Yemen, Republic of	120.5	176.5
Yugoslavia	613.0	918.3
Zaïre	291.0	394.8
Zambia	270.3	363.5
Zimbabwe	191.0	261.3

*See page 7, column 2 of this Supplement for an explanation of how quota increases under the Ninth General Review become effective.

[1]Became a member after June 28, 1990, the effective date of the IMF's Board of Governors' resolution approving the quota increases under the Ninth General Review.

Data: IMF Treasurer's Department

Governors and are awaiting completion of the necessary formalities by their respective governments. In addition, the applications for membership of Bosnia-Herzegovina, Croatia, and Slovenia are being processed. With the addition of these countries, the IMF's membership will effectively become universal.

Ninth General Review of Quotas

In accordance with the IMF's Articles of Agreement, the Board of Governors is required, at intervals of not more than five years, to conduct a general review of quotas and to propose any adjustments that it considers appropriate. These adjustments take into account the growth of the world economy and changes in the economic positions of members.

At the end of May 1990, the Executive Board submitted a resolution to the Board of Governors proposing an increase of 50 percent in IMF quotas, to approximately SDR 135.2 billion. (Following the adoption of this resolution on June 28, 1990, and in view of the subsequent membership in the IMF of 22 additional countries, total quotas will increase to about SDR 146.0 billion.) At the same time, the Executive Board submitted a separate draft resolution proposing a Third Amendment of the IMF's Articles of Agreement, which provides for the suspension of voting and related rights of members that do not fulfill their obligations under the Articles. The resolution adopted on the proposed quota increase specified that no increase in quotas under the Ninth General Review would become effective until the Third Amendment came into effect.

The quota increases proposed for members were reached in the following manner: 60 percent of the overall increase was distributed in proportion to current individual quotas, and the balance of 40 percent was distributed in the form of selective adjustments to bring members' shares more into line with their relative positions in the world economy. In addition, Japan's proposed quota was increased further to equal that of Germany. The proposed quota increases for Canada, France, Germany, Italy, the United Kingdom, and the United States were also adjusted in such a manner that the proposed increases in quotas of all other members were not affected. Special adjustments were also made in the proposed quotas of Antigua and Barbuda, Bhutan, Maldives, Seychelles, and other members with current quotas of less than SDR 10 million.

The Third Amendment is expected to go into effect by November 30, 1992. Since the minimum participation requirement for consents to quota increases under the Ninth General Review has already been met, the adoption of the Third Amendment will permit each member that has already consented to the increase in its quota to make it effective by paying the amount of the increase to the IMF within the next 30 days. Likewise, each member that has not consented to the increase in its quota will—provided it has no overdue financial obligations to the IMF—continue to be able to do so until November 30, 1992 (or such later date as may be specified by the Executive Board); after consenting, the member will have 30 days in which to pay the amount of the increase to the IMF.

In accordance with the Articles of Agreement, the Board of Governors must complete the Tenth General Review of Quotas not later than March 31, 1993. On March 31, 1992, the Executive Board took the first step in the review process by establishing a Committee of the Whole for the Tenth General Review.

Surveillance . . .

Of Members' Exchange Rate Policies

The IMF is mandated to "exercise firm surveillance over the exchange rate policies of its members" to help assure orderly exchange arrangements and promote a stable exchange rate system. It carries out this responsibility with the active participation of its member countries. The IMF's appraisal of exchange rate policies is made within the framework of a comprehensive analysis of the general economic situation and the policy strategy of the member.

The IMF fulfills its surveillance responsibilities in two principal ways. First, the Board regularly examines each member's economic policies and performance and their interaction with economic developments in other countries. These examinations are based on staff reports prepared on the basis of consultation discussions with the authorities of member countries that are normally conducted on an annual basis.

Second, the Board holds regular (usually twice a year) discussions on the world economic outlook that allow for review of members' policies from a multilateral perspective and for systematic monitoring and analysis of the global economic situation. The Board also holds, somewhat more frequently, discussions on exchange market developments in the major industrial countries. In addition, the Managing Director participates in meetings of finance ministers and central bank governors of the seven major industrial countries (Group of 7), to which he brings a global perspective that helps in analyzing international policy interactions.

The IMF contributes to international policy coordination through its work

on key economic indicators and alternative medium-term economic scenarios. The IMF staff prepares medium-term projections for a range of indicators used to monitor and review the policies and performance of the large industrial countries. These indicators—which the IMF has been refining since 1986—include real growth of GNP or GDP, growth of real domestic demand, gross private investment, GDP deflators, general government financial balances, external current account balances, and primary commodity prices. The IMF staff also prepares, for the Board's consideration, medium-term scenarios that illustrate the effects of alternative policy paths and identify potential conflicts that may need to be addressed.

In its most recent biennial review of surveillance, the Executive Board reaffirmed the central role of surveillance in promoting orderly underlying economic and financial conditions and a stable exchange rate system. Recognizing the broadened scope of surveillance in recent years—especially the inclusion of structural and other issues relevant to understanding broad macroeconomic developments—the Board encouraged more selective coverage, so that consultations focus on core issues with substantial implications for price stability, economic growth, and the balance of payments from both national and international perspectives. The Board also reaffirmed that the world economic outlook exercise would continue to play a crucial role in providing a multilateral framework for surveillance, serving as a basis for integrating the analysis of individual countries into a larger, multilateral context.

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SDRs . . .

Evolution of IMF-Created Instrument Is Linked to Role As Principal Reserve Asset

The SDR (special drawing right) is an international reserve asset created by the IMF and allocated to its members to supplement existing reserve assets. The IMF has allocated a total of SDR 21.4 billion in six annual allocations since the SDR was created in 1970. As of April 30, 1992, holdings of SDRs by member countries amounted to 3.4 percent of their total nongold reserves.

All member countries of the IMF currently are participants in the SDR Department. They are eligible to receive allocations of SDRs and may use SDRs in transactions and operations among themselves, with prescribed holders (of which there are now 16), and with the IMF itself.

The SDR is also the unit of account of the IMF. The value of the unit is determined daily on the basis of a basket of five currencies: the U.S. dollar, the deutsche mark, the French franc, the Japanese yen, and the pound sterling. The SDR valuation basket was revised on January 1, 1991. The five currencies used in the basket remained the same, but their weights were revised to reflect changes in their relative importance in international trade and finance. The revised basket will be in effect until December 31, 1995.

The SDR interest rate, which is determined weekly, is a weighted average of the yields on specified short-term domestic obligations in the money markets of the five countries whose currencies make up the SDR valuation basket. The financial instruments included in the SDR interest rate basket were reviewed in 1990 and, with effect from January 1, 1991, the interest rate on the two-month private bill used for the Japanese yen

SDR Valuation on August 24, 1992

Currency	1 Currency Amount	2 Exchange Rate on August 24	3 U.S. Dollar Equivalent
Deutsche mark	0.4530	1.42120	0.318745
French franc	0.8000	4.83100	0.165597
Japanese yen	31.8000	125.23000	0.253933
Pound sterling	0.0812	1.97200	0.160126
U.S. dollar	0.5720	1.00000	0.572000
		Total	1.470401

SDR 1 = US$1.47040
US$1 = SDR 0.680087[1]

Column 1: The currency components of the SDR basket.
Column 2: Exchange rates in terms of currency units per U.S. dollar except for the pound sterling, which is expressed in U.S. dollars per pound.
Column 3: The U.S. dollar equivalents of the currency amounts in Column 1 at the exchange rates in Column 2–that is, Column 1 divided by Column 2.

[1]The official SDR value of the U.S. dollar, which is the reciprocal of the total of column 3—that is, 1÷1.470401, rounded to six significant digits.

Data: IMF Treasurer's Department

component was replaced by the rate on three-month certificates of deposit, and the interest rate on three-month interbank deposits used for the French franc component was replaced by the rate on three-month French treasury bills. The instruments for the U.S. dollar (market yield for three-month U.S. treasury bills), the pound sterling (market yield for three-month U.K. treasury bills), and the deutsche mark (three-month interbank deposit rate in Germany) remained unchanged. The changes in the instruments reflect changed circumstances in financial markets resulting from innovation and deregulation.

location was made on January 1, 1981. A total of SDR 4.1 billion was allocated to the 141 countries that were members of the IMF at that time.

Use of SDRs

Members with a balance of payments need may use SDRs to acquire foreign exchange in a transaction *with designation*—that is, one in which another member, designated by the IMF, provides a freely usable currency in exchange for SDRs. The IMF may designate members to provide currencies in exchange for SDRs on the basis of the strength of their balance of payments and reserve positions. A member's obligation to provide currency does not extend beyond the point at which its SDR holdings amount to three times its net cumulative allocation. The IMF and a participant may, however, agree on a higher limit.

IMF members may use SDRs in a variety of voluntary transfers. These include transactions *by agreement*—that is, spot exchanges of SDRs for other monetary assets—and in operations among themselves and with prescribed holders:

- to obtain any currency in transactions by agreement with other members, provided that the transaction is made at the official exchange rate against the SDR as determined by the IMF;
- in swap arrangements, in which a member may transfer SDRs to another member in exchange for an equivalent amount of currency or another monetary asset, except gold, with an agreement to reverse the exchange at a specified future date and at an exchange rate agreed to by the participants;
- in forward operations, in which members can buy or sell SDRs for delivery at a future date against currency or another monetary asset, except gold, at an exchange rate agreed to by the members;
- to make loans of SDRs, at interest rates and maturities agreed to by the parties (repayments of loans and payments of interest may be made with SDRs);
- to settle financial obligations;
- as security for the performance of financial obligations, in either of two ways: (1) members can pledge SDRs, which can be earmarked for the duration of the pledge by being recorded in a special register kept by the IMF, or (2) members can agree that SDRs will be transferred as security for the performance of an obligation and that the SDRs will be returned to the transferor when its obligation under the agreement has been fulfilled; and
- in donations (grants).

In addition, SDRs may be used under special arrangements in operations under the structural adjustment facility and the enhanced structural adjustment facility. Special arrangements involving prescribed holders are needed for these operations because the IMF's Special Disbursement Account and accounts administered by the IMF may not hold SDRs directly.

The uses of SDRs between members and the IMF consist of receipts of SDRs by the IMF's General Resources Account (GRA) from members and transfers of SDRs from the GRA to members. IMF receipts are

SDR Interest Rate Calculation for the Week Beginning August 24, 1992

Currency	1 Currency Amount	2 Interest Rate (percent)	3 Exchange Rate Against the SDR	4 Product
Deutsche mark	0.4530	9.9868	0.47354700	2.1423
French franc	0.8000	10.7100	0.13954900	1.1957
Japanese yen	31.8000	3.7800	0.00543998	0.6539
Pound sterling	0.0812	9.8945	1.33017000	1.0687
U.S. dollar	0.5720	3.1400	0.68707000	1.2340
			Total	6.2946

SDR interest rate = 6.29 percent

Column 1: The currency components of the SDR basket.
Column 2: Short-term interest rates on specific domestic obligations as of Friday, August 21, 1992.
Column 3: Exchange rates as of August 21, expressed in SDRs per currency unit.
Column 4: Product of Columns 1 through 3.

Data: IMF Treasurer's Department

SDR Allocations

The IMF has the authority to create unconditional liquidity by allocating SDRs to participants in the SDR Department. The IMF cannot allocate SDRs to itself or to prescribed holders. Decisions on allocations of SDRs are made for basic periods that run consecutively. The amount allocated to each participant is in proportion to its quota at the time of allocation.

In deciding on the timing and amount of SDR allocations, the IMF must determine that there is a long-term global need to supplement existing reserve assets. The most recent al-

mainly comprised of charges levied on its members' use of IMF resources, repurchases, and quota subscriptions. Transfers from the IMF consist mainly of purchases; remuneration on members' creditor positions; and repayments of, and interest payments on, IMF borrowing.

No transactions with designation have taken place since September 1987. All exchanges of SDRs for currency since then have been through transactions by agreement, which amounted to SDR 5.0 billion in the financial year ended April 30, 1992. Transactions by agreement in recent years have been facilitated by revolving buying and selling (two-way) arrangements for voluntary SDR transactions, which currently allow the IMF to arrange potential exchanges of SDR 2.0 billion for U.S. dollars, deutsche mark, Japanese yen, French francs, and pounds sterling. While maintaining the SDR holdings of participating members within the desired ranges, these arrangements have facilitated the smooth functioning of the SDR system by accommodating excess demand or supply of SDRs without recourse to the designation process.

Prescribed Holders of SDRs

The IMF has the authority to extend the range of official holders of SDRs beyond its member countries and the IMF's General Resources Account. It has designated, as of April 30, 1992, the following 16 organizations as prescribed holders: the African Development Bank and the African Development Fund, the Andean Reserve Fund, the Arab Monetary Fund, the Asian Development Bank, the Bank for International Settlements, the Bank of Central African States, the Central Bank of Western African States, the East African Development Bank, the Eastern Caribbean Central Bank, the International Bank for Reconstruction and Development (World Bank) and the International Development Association, the International Fund for Agricultural Development, the Islamic Development Bank, the Nordic Investment Bank, and the Swiss National Bank.

Valuation of the SDR

The value of the SDR in U.S. dollar terms is calculated daily by the IMF as the sum of the values in U.S. dollars, based on exchange rates quoted at noon in the London market, of specified amounts of the five currencies in the valuation basket. These amounts are derived from the agreed percentage weights of these currencies, using average exchange rates for the three months that ended on December 31, 1990. The agreed weights are 40 percent for the U.S. dollar, 21 percent for the deutsche mark, 17 percent for the Japanese yen, and 11 percent each for the French franc and the pound sterling. The weights broadly reflect the relative importance of the currencies in international trade and payments, based on the value of the exports of goods and services of the member countries issuing these currencies and the balances of these currencies held as reserves by members of the IMF during 1985–89. An illustrative calculation of the value of the SDR in terms of the U.S. dollar is shown in the accompanying table.

SDR Interest Rate

The interest rate on the SDR is determined weekly on the basis of the yields on Friday of the specified short-term domestic obligations included in the SDR interest rate basket. For the week beginning August 24, 1992, the rate of interest on the SDR was 6.29 percent. The accompanying table illustrates how this rate is calculated.

A member whose holdings of SDRs exceed its net cumulative allocation earns interest on those excess holdings, and a member whose holdings are less than its net cumulative allocation pays charges at the same rate on its net use of SDRs. Interest is credited, and charges debited, quarterly.

On April 30 of each year, an assessment is levied on each participant, in proportion to its net cumulative allocation, to cover the expenses of conducting the business of the SDR Department. The rate for the financial year ended April 30, 1992 was 0.0191291 percent of net cumulative allocations.

Unit of Account

The SDR is used as a unit of account or as a basis for the unit of account by a number of international and regional organizations. The SDR is also used to denominate private financial instruments. Thus far, the creation of private SDR deposits has been limited. The use of the SDR as a unit of account is explained, in part, by the fact that the value of the SDR (in terms of any one currency) tends to be more stable than that of any single currency in the basket, since movement in the exchange rate of any one of the component currencies will tend to be partly or fully offset by movements in the exchange rates of the other currencies.

Currency Peg

As of June 30, 1992, the currencies of six member countries were pegged to the SDR. The value of the member's currency under such an arrangement is fixed in terms of the SDR and then calculated in terms of other currencies by reference to the SDR value of those currencies as published by the IMF.

SDR Rates

Week Beginning	Rate of SDR Interest and Charges (percent)
August 24	6.29
August 31	6.39

The rate of SDR interest and charges is calculated weekly, by reference to a combined market interest rate, which is the weighted average of interest rates on specified short-term domestic obligations in the money markets of the five countries whose currencies constitute the SDR valuation basket (U.S. dollar, deutsche mark, Japanese yen, French franc, and pound sterling). The interest rates used are those that prevail each Friday. For the latest weekly rates, call (202) 623-7171.

Data: IMF Treasurer's Department

An Essential Review . . .

Article IV Consultations Provide Framework For Surveillance of IMF Members' Policies

IMF staff members meet regularly with government officials of each member country to gather current economic and financial information and to review economic policies and developments. In principle, these consultations are annual and take place in accordance with an Executive Board decision adopted in 1977. The IMF analyzes economic developments and policies in member countries; examines members' fiscal, exchange rate, and monetary policies and performances, and balance of payments situations; and assesses the impact of policies—including exchange and trade restrictions—on members' external accounts.

In addition, consultations help draw attention to the international implications of policies and developments in the economies of individual countries. They also help the IMF to deal promptly with members' requests for the use of IMF financial resources and with proposed changes in policies or practices that are subject to IMF approval. Article IV consultations enable the staff and the Executive Board to draw on, and learn from, the broad experience of the membership over an extended period.

In practice, the scope of Article IV consultations depends on the characteristics of the member country and on the prevailing external economic environment. In recent years, increasing attention has been devoted to determining whether a country's balance of payments position can be sustained over the medium term and to finding ways that structural policies can enhance economic performance.

Article IV consultations are held annually with most member countries, although a few countries have longer consultation cycles of up to two years. In 1987, a "bicyclic" procedure was introduced, within the framework of annual consultations, to help reduce the frequency of Board discussions while ensuring the high quality of surveillance. Under this procedure, a staff report is issued to the Executive Board for each annual consultation, but the interim consultation—held every second year—is completed without a Board discussion, unless a discussion is requested by a Board member or the Managing Director. In another attempt to reduce the workload of the Board and staff in the face of a sudden surge of activity, consultation cycles were lengthened temporarily in November 1991 for almost one half of member countries, on an across-the-board basis, by shifting some consultations from standard 12-month cycles to the bicyclic procedure and others from the bicyclic procedure to 24-month cycles. The Board will review this decision by November 1992 with a view to reverting to the regular cycles.

Article VIII: Countries Undertake To Refrain from Exchange Restrictions

One of the main purposes of the IMF is to facilitate the expansion and balanced growth of international trade. In this context, the IMF seeks to contribute to the promotion and maintenance of high levels of employment and real income and to assist in establishing a multilateral system of payments with respect to current transactions between IMF members. One way that the IMF endeavors to achieve these objectives is by helping to eliminate restrictive practices in the exchange and payments areas—one of the basic purposes of the IMF as set out in Article I, and a specific objective of Article VIII, of the IMF's Articles of Agreement.

Members accepting the obligations of Article VIII, Sections 2(*a*), 3, and 4 undertake to refrain from imposing restrictions on the making of payments and transfers for current international transactions and from engaging in discriminatory currency arrangements or multiple currency practices without the approval of the IMF.

Since December 1991, two members have notified the IMF that they have accepted the obligations of Article VIII, Sections 2(*a*), 3, and 4 of the Articles of Agreement—Marshall Islands (June 17, 1992) and Greece (July 7, 1992). There are now 72 members with Article VIII status.

Conditionality . . .

Financial Support for Member Countries Complements Economic Policy Changes

In providing financial support to any member country, the IMF must be assured that the member is pursuing policies that will ameliorate or eliminate its external payments problem. Use of the IMF's general resources must be in accordance with the provisions of the IMF's Articles and the policies adopted under them. This requirement, known as conditionality, seeks to strike an appropriate balance between the provision of financing and policy changes.

As part of conditionality, the use of the IMF's resources in the credit tranches is linked to the member's progress in implementing policies geared to restoring balance of payments viability and sustainable economic growth. A viable payments position is one that a country can finance on terms compatible with its development prospects and its debt-servicing capacity without resorting to restrictions on trade and current payments. IMF-supported programs are designed to restore domestic and external balance in the economy.

Flexible Approach

Conditionality is not a rigid set of operational rules. The Executive Board undertakes periodic reviews of conditionality, and, on many occasions, it has adjusted the policies and practices relating to the use of the IMF's resources. In its most recent discussion of issues related to conditionality and program design, in July 1991, the Executive Board affirmed that the current guidelines on conditionality, which the Board adopted in 1979, remain broadly appropriate. These guidelines provide for the phasing of purchases and include the injunction that objective indicators for monitoring performance—performance criteria—be limited to those variables necessary to ensure the achievement of the objectives of the programs. The guidelines also

- emphasize the need to encourage members to adopt corrective measures at an early stage of their balance of payments difficulties;
- stress the necessity of paying due regard to members' domestic social and political objectives, as well as their economic priorities and circumstances, including the causes of their balance of payments problems;
- provide for a flexible approach in determining the number and content of performance criteria, which may vary because of members' diverse problems and institutional arrangements; and
- stress that IMF arrangements are not contractual agreements with the member but rather decisions of the IMF that set out the conditions for financial assistance from the IMF.

Conditionality seeks to strike a balance between provision of financing and policy changes.

Basis for Conditionality

Conditionality is an essential element of the IMF's role in helping member countries to alleviate their balance of payments problems. It is also designed to ensure that members who use IMF resources will be able to meet the repayment schedule, thereby maintaining the revolving nature of IMF resources.

If the balance of payments problem is temporary and self-reversing, adequate financing provided on a temporary basis is all that is needed. However, it is neither desirable nor feasible to finance balance of payments deficits over a protracted period without addressing their underlying causes. At the same time, applying corrective measures without obtaining the necessary financing would render the process of adjustment more difficult. The IMF's provision of financing to support a member's policy adjustments and the additional financing which an arrangement with the IMF often enables the member to attract from other sources allow the adjustment period to be extended, thereby making the process less severe than it would otherwise be.

Conditionality in Practice

The IMF takes a pragmatic approach in helping members formulate economic reform programs. Given the diversity of IMF members' situations, it would be inappropriate to apply any one model of adjustment to all mem-

bers. Each IMF-supported program is designed by the member country concerned in close collaboration with the IMF's staff. The process involves a comprehensive review of the member's economy, including the causes and nature of its balance of payments problems and an analysis of the policies needed to achieve a sustainable balance between the demand for, and the availability of, resources.

IMF-supported programs emphasize certain key aggregate economic variables, including domestic credit, the public sector deficit, international reserves, and external debt. They also emphasize key elements of the pricing system—including the exchange rate, interest rates, and, in some cases, the prices of commodities—that significantly affect the country's public finances and foreign trade, and the supply response of the economy.

During a stand-by or extended arrangement in support of a member's program of reform, its performance is monitored through performance criteria, which are selected according to the economic and institutional structure of the country, the availability of data, and the desirability of focusing on broad macroeconomic variables, among other considerations. The IMF approach also embraces all aspects of economic policies that affect the supply of, and the demand for, resources.

The impact of IMF-supported programs on other economic variables—such as income distribution, employment, and social services—depends in large part on decisions affecting the detailed execution of policy measures, which are the responsibility of the government. These decisions include how credit should be allocated, where public expenditures should be restrained, and which tax and subsidy measures should be applied. While questions of income distribution do not form part of IMF conditionality, the IMF attaches considerable importance to improving program design to protect the poor from the possible short-run adverse effects of policy adjustments. The IMF will, upon request, explore with the authorities the distributional consequences of alternative approaches to economic policy reforms.

In mid-1992, the IMF's staff authored and published economic reviews of all 15 former Soviet states.

Growth-Oriented Adjustment

To succeed, a program must elicit an adequate response from the supply side of the economy. Interest rates and exchange rates are particularly important, since they influence saving and investment decisions and, therefore, a member country's growth prospects. In emphasizing certain aspects of members' economic objectives—such as strengthening the current account of the balance of payments and promoting economic growth—policy adjustments supported by the IMF focus on such supply-related actions as removing distortions that hamper export growth and measures to increase the efficiency of government spending. These measures help to eliminate a country's imbalances while enhancing its growth prospects. However, although the IMF now places more emphasis on measures to expand the supply of resources and broaden the productive base, it still supports demand-side measures, which remain essential to the creation of a stable economic environment conducive to sustainable growth.

In light of the greater emphasis on the structural aspects of IMF-supported programs, close collaboration between the IMF and the World Bank is important. Coordination between the IMF and the World Bank is particularly important in developing programs that support members' requests for resources available under the IMF's structural adjustment and enhanced structural adjustment facilities.

Facilities . . .

IMF Provides Resources To Members Under Various Facilities

The IMF's financial resources are made available to its members under a variety of facilities and policies, which differ mainly in the type of balance of payments need they address and in the degree of conditionality attached to them.

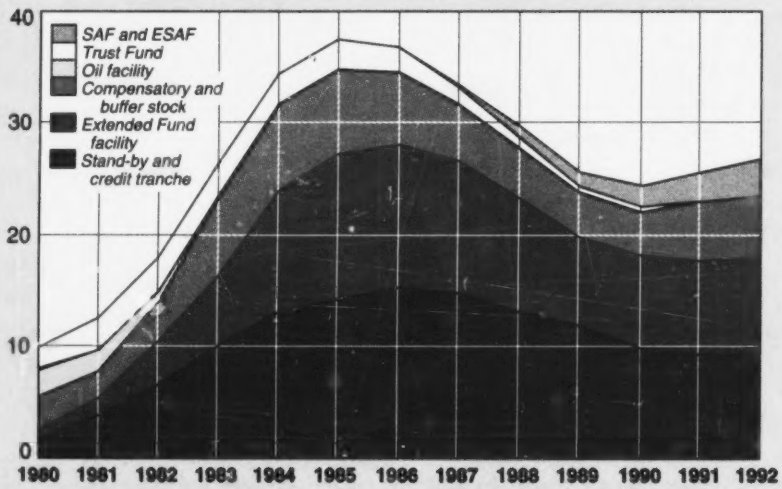
Financing Sources

The IMF derives its finances from

- resources in the General Resources Account, which may be used to provide balance of payments financing to all members and are obtained from both members' subscriptions and the IMF's borrowing;
- resources in the Special Disbursement Account, which are used for concessional balance of payments assistance to low-income developing members through the structural adjustment facility (SAF) and the enhanced structural adjustment facility (ESAF), and are derived from the reflow of Trust Fund resources (originally derived from the proceeds of the sale of a part of the IMF's gold holdings during 1976–80); and
- resources in the ESAF Trust, which are derived from members' loans and donations, are used by the IMF, as trustee, for concessional balance of payments assistance to low-income developing members.

Total IMF Credit Outstanding to Members (including Trust Fund, SAF, and ESAF), Financial Years 1980–92[1]

(billion SDRs)



[1] The IMF's financial year begins on May 1 and ends on April 30. For example, financial year 1992 began on May 1, 1991 and ended on April 30, 1992.

Data: IMF, *Annual Report, 1992*

The rules governing access to the IMF's general resources—that is, its holdings of the currencies of member countries and SDRs, as well as borrowed resources—apply uniformly to all members. Access to these resources is determined primarily by the member's balance of payments need and the strength of its adjustment policies, and may be permitted up to limits that are defined in relation to the member's quota. However, under the IMF's Articles of Agreement, the IMF may allow members access to its general resources in excess of these limits in exceptional circumstances.

General resources are used to finance stand-by and extended arrangements, as well as special facilities that are open to all members, including the compensatory and contingency financing facility and the buffer stock financing facility. Members may also make use of general resources under temporary policies and facilities that are financed with borrowed resources, notably under the "enlarged access" policy.

Fund Facilities

Reserve Tranche. A member has a reserve tranche position in the IMF to the extent that its quota exceeds the IMF's holdings of its currency in the General Resources Account, excluding holdings arising out of purchases made by the member under all policies on the use of the IMF's general resources. A member may purchase up to the full amount of its reserve tranche at any time, subject only to the requirement of balance of payments need. A reserve tranche purchase does not constitute a use of IMF credit and is not subject to

charges or to an expectation or obligation to repurchase.

Credit Tranches. The credit tranche policy is the IMF's basic policy on the use of its general resources. Credit is made available in four tranches, each equivalent to 25 percent of a country's quota. Members may request stand-by arrangements above this limit in the context of the enlarged access policy.

A first credit tranche purchase raises the IMF's holdings of the purchasing member's currency in the credit tranches to no more than 25 percent of quota. Generally, a member may request use of the IMF's resources in the first credit tranche if it demonstrates that it is making reasonable efforts to overcome its balance of payments difficulties. A member may also request use of the first credit tranche as part of a stand-by arrangement.

Subsequent purchases are made in the upper credit tranches. A member may use the IMF's resources in the upper credit tranches if it adopts policies that provide appropriate grounds for expecting that the member's balance of payments difficulties will be resolved within a reasonable period. Use of the upper credit tranches is almost always made under a stand-by or an extended arrangement.

Stand-By Arrangements. A stand-by arrangement, like an extended arrangement, assures the member that it will be able to make purchases from the IMF, up to a specified amount, during a given period, as long as it has observed the performance criteria and other terms specified in the arrangement. The length of stand-by arrangements has typically been between 12 and 18 months in recent years, but it may extend up to 3 years. Repurchases of credit tranche drawings financed with ordinary resources—that is, the IMF's holdings of members' currencies and SDRs, rather than borrowed resources—are made 3¼–5 years after each purchase.

Purchases of the amounts available under a stand-by arrangement in the upper credit tranches or under an extended arrangement are "phased"—that is, they are made available in installments at specified intervals during the period of the arrangement. The member's right to draw is subject to observance of performance criteria and other specified conditions. These criteria typically cover credit policy, government or public sector borrowing requirements, and policies on trade and payments restrictions. Performance criteria also frequently cover the contracting or net use of short-, medium-, and long-term foreign debt, as well as changes in the level of external reserves.

Signers of the North American Free Trade Agreement: Michael H. Wilson, Canada's Minister for International Trade (left); Carla Hills, U.S. Trade Representative (center); and Jaime Serra-Puche, Mexico's Secretary of Commerce and Industrial Development.

Access Limits Under Arrangements and Facilities

(percent of member's quota)

Under stand-by and extended arrangements[1]	
Annual	90–110
Three-year	270–330
Cumulative	400–440
Special facilities	
Compensatory and contingency financing facility (CCFF)	
Export earnings shortfall	40
Excess cereal import costs	17
Contingency financing[2]	40
Optional tranche[3]	25
Combined[4]	122
Buffer stock financing facility	45
Under SAF and ESAF arrangements	
Structural adjustment facility	
First year	20
Second year	30
Third year	20
Cumulative	70
Enhanced structural adjustment facility[1]	
Cumulative	250

1 Under exceptional circumstances, these limits may be exceeded.
2 A sub-limit of 35 percent of quota applies on account of deviations in interest rates.
3 May be applied to supplement the amounts for export earnings shortfalls, excesses in cereal import costs, or contingency financing.
4 When a member has a satisfactory balance of payments position—except for the effect of an export earnings shortfall or the excess in cereal import costs—a joint limit of 105 percent of quota applies.

Performance criteria allow the member and the IMF to assess a member's progress in carrying out policies during a stand-by (or an extended) arrangement, and they signal the need for possible corrective policies. When performance criteria have not been observed, further purchases are permitted only after the IMF and the member reach understandings—following consultations and Executive Board action—for the resumption of purchases.

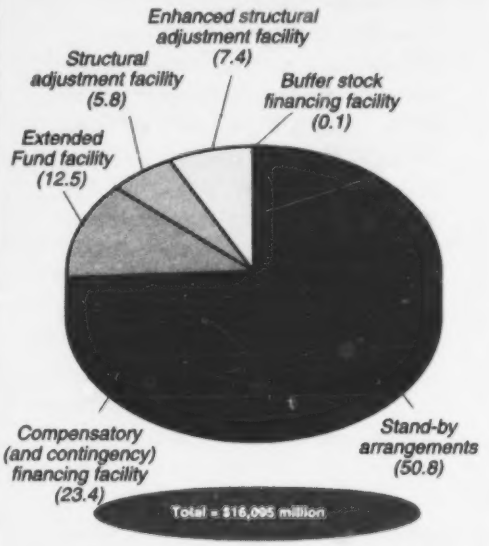
Extended Fund Facility. Under the extended Fund facility (EFF), which was established in 1974, the IMF may provide assistance to its members to enable them to meet their balance of payments needs for longer periods and in amounts larger in relation to quotas than under the credit tranche policies.

A member that requests an extended arrangement is expected to present a program outlining the objectives and policies for the whole period of the arrangement, and to present each year a detailed statement of the policies and measures that it will follow in the next 12-month period.

Purchases under extended arrangements are made from ordinary resources until the outstanding use of ordinary resources in the upper credit tranches and under the facility equals 140 percent of the member's quota. Members may also request extended arrangements in excess of this limit in the context of the enlarged access policy. The length of extended arrangements is normally 3 years, although this can be extended to 4 years, when appropriate, at the request of the member. Repurchases of drawings of ordinary resources under the EFF are made 4½ to 10 years after each purchase.

IMF Financial Assistance to Sub-Saharan Africa

(percent of cumulative drawings[1] as of December 31, 1990)


Enhanced structural adjustment facility (7.4)
Structural adjustment facility (5.8)
Buffer stock financing facility (0.1)
Extended Fund facility (12.5)
Compensatory (and contingency) financing facility (23.4)
Stand-by arrangements (50.8)
Total = $16,095 million

Note: Two special assistance facilities (the oil facility, established annually in 1973 and 1974, and the Trust Fund loan program, launched in 1976, with disbursements during 1977–81) are not included in this chart, because they have run their course and are no longer active; total drawings by sub-Saharan African countries under the oil facility amounted to $635.3 million.

[1]Excluding South Africa.

Data: IMF Information System

Enlarged Access Policy

The enlarged access policy enables the IMF to provide additional financing, from borrowed resources, to members whose payments imbalances are large in relation to their quotas. The enlarged access policy is used when the member needs more financing from the IMF than is available to it in the four credit tranches or under the extended Fund facility, and when its problems require a relatively long period of adjustment and a longer repurchase period.

The enlarged access policy is financed with ordinary resources and resources borrowed for this purpose. The "mix" of ordinary and borrowed resources is determined in accordance with IMF policy. All repurchases of drawings financed with borrowed resources under the enlarged access policy, irrespective of the facility under which the drawings are made, fall due 3½ to 7 years after each purchase.

The current access limits on stand-by and extended arrangements, individually or combined, are 90 or 110 percent of quota annually; 270 or 330 percent of quota over three years; and 400 or 440 percent of quota on a cumulative basis, net of repurchases; actual access within the range of access limits is based on a member's balance of payments need and the strength of its adjustment effort. The limits, which may be exceeded in exceptional circumstances, exclude drawings under the compensatory and contingency financing facility, as well as under the SAF and the ESAF.

The IMF's policy on enlarged access and the access limits under this policy are reviewed annually by the Executive Board. In its recent preliminary review, in November 1991, the Board decided to leave the limits unchanged pending the completion of the Ninth General Review of Quotas. In light of the expected full utilization of available credit lines, the Executive Board, in September 1990, decided to substitute ordinary resources for borrowed resources in instances where resources were needed to meet IMF commitments, once borrowed resources had been drawn down fully. Such substitution will apply only until the quota increases under the Ninth General Review become effective or November 30, 1992, whichever is earlier.

CCFF . . .

Financing Helps Members Adjust to Unexpected External Disruptions

Compensatory financing under the compensatory and contingency financing facility (CCFF) helps countries meet shortfalls in their export receipts and/or excesses in the cost of their cereal imports. Through an appropriate blend of additional financing and adjustment, contingency financing helps countries facing adverse external shocks that are beyond their control to maintain the momentum of adjustment programs.

Compensatory Financing

Compensatory financing was first introduced in 1963 to provide financial assistance to members experiencing—for reasons largely beyond their control—balance of payments problems resulting from temporary declines in export earnings below their medium-term trend, particularly as a result of fluctuations in commodity prices. Initially, compensatory financing covered only merchandise export earnings, but the range of exports covered has expanded over the years. In 1979, the facility was broadened to include shortfalls in receipts from two categories of services: tourism and "workers' remittances" (earnings of citizens working overseas that are repatriated to their home countries). In 1981, a new window was added to the facility to allow compensation for countries faced with an excessive rise in the cost of their imports of cereal products.

In December 1990, as part of the IMF's policy adaptations in light of events in the Middle East, the Executive Board further widened the range of services eligible for compensatory financing to cover most services, including earnings from pipelines, canal transit fees, shipping, transportation, construction, and insurance. At the same time, the Board allowed quicker access to compensatory credit by permitting the member to use estimated, rather than actual, data for the entire shortfall year (compared with a minimum of six months' actual data previously) to calculate the earnings shortfall.

The CCFF's temporary oil element, which was also introduced in December 1990, compensated members for sharp rises in the cost of their imports of crude petroleum, petroleum products, and natural gas. The oil element remained in force until the end of the 1991 calendar year, and approvals of financing under it were concluded in June 1992.

Export Shortfalls

To receive compensatory financing, a member must have a balance of payments need. The export earnings shortfall or the cereal import cost excess must be temporary and attributable to circumstances largely beyond the member's control. For members whose balance of payments problems go beyond the effects of an export shortfall, the use of the compensatory financing element requires that the member country cooperate with the IMF in finding appropriate solutions to its balance of payments difficulties.

The calculated export shortfall is the amount by which a member country's export earnings in the shortfall year are below the value of their medium-term trend. This trend is defined as the geometric average of export earnings during the five-year

NGO representatives inspect a lake bed exposed by severe drought in the Mount Darwin District of Zimbabwe.

Participants in the United Nations Conference on Environment and Development–the Earth Summit–sign the Earth Pledge. IMF Managing Director Michel Camdessus addressed the conference, which was held in Rio de Janeiro in June 1992.

period centered on the shortfall year. Projected export earnings for the two years after the shortfall may not be more than 20 percent above the level of actual export earnings in the two years before the shortfall.

Cereal Import Cost Excesses

An excess in cereal import costs is calculated as the amount by which the cost of such imports in a given year exceeds the arithmetic average cost for the five-year period centered on that year. An excess in cereal import costs is compensated only in combination with an export earnings shortfall. Where there is an export earnings excess, this excess is deducted from the excess in cereal import costs to determine the amount of compensation.

Contingency Financing

A contingency mechanism may be attached to an IMF arrangement at the request of the member concerned. Under this mechanism, financing is provided to cover part of the net effect of unfavorable deviations in highly volatile and easily identifiable key variables affecting the current account (which are beyond the member's control) of the member's balance of payments. The variables covered could include, for example, main export or import prices or international interest rates. Variables such as workers' remittances and receipts from tourism are also covered if they are important elements in the member's current account. Deviations in the variables covered by a contingency mechanism are measured in relation to baseline projections, which are established at the start of an arrangement or at the time of a review of an arrangement that has at least six months remaining. The contingency mechanism is triggered once net deviations in the key variables exceed a threshold level and it is clear that these deviations have not been offset by movements in other variables affecting the current account that are not covered by the mechanism.

Favorable deviations—such as an unexpected increase in export prices—may trigger the symmetry provision. This could result in an increase in the reserve target under the IMF-supported program, a reduction in the amount available under the IMF arrangement, or an early repurchase of previous contingency purchases.

Access Limits Under the CCFF

The current overall access limit under the CCFF is set at 122 percent of a member's quota. Sub-limits provide maximum access equivalent to 40 percent of quota under the contingency element; 40 percent of quota for the export-earnings-shortfall element; 17 percent of quota for the cereal-import-cost element; *plus* an "optional" 25 percent of quota, which may be used to supplement any of the three elements of the CCFF.

Drawings under the CCFF are additional to those under regular credit tranche policies. This means that a member's use of IMF resources under this special facility may increase the IMF's holdings of the member's currency beyond the limits set for cumulative use under credit tranche policies.

Buffer Stock Financing Facility

Another special facility, the buffer stock financing facility (BSFF), was established in 1969 to help finance IMF members' contributions to approved international commodity buffer stock schemes, provided that each requesting member demonstrates a balance of payments need. Drawings may be made for buffer stock financing up to the equivalent of 45 percent of quota. The member is expected to show its willingness to cooperate with the IMF to find, where required, appropriate solutions to its balance of payments difficulties. In April 1990, the IMF decided that the BSFF could be used to finance eligible members' contributions to the 1987 International Rubber Agreement. No drawings have been made under this facility for the past six years, and no credits under the facility are currently outstanding.

Structural Adjustment . . .

Concessional Facilities Assist Low-Income Countries

The IMF's Executive Board established the structural adjustment facility (SAF) in March 1986 to provide balance of payments assistance on concessional terms to low-income developing countries. The facility is funded by the resources of the Special Disbursement Account, which are derived from repayments made by members to the IMF's Trust Fund. Established in 1976 to provide balance of payments assistance on concessional terms to eligible members, the Trust Fund made its final disbursements on March 31, 1981; repayments continued to be received through April 1991. Total resources available for disbursements are about SDR 2.7 billion (special drawing rights). In December 1987, the Executive Board established the enhanced structural adjustment facility (ESAF) with about SDR 6 billion in additional loanable resources.

Both the SAF and the ESAF are part of a broader effort by the IMF to help low-income developing countries.

Both facilities are part of a broader effort by the IMF to help low-income developing countries to cope with their unprecedented problems. The SAF provides loans to support the medium-term macroeconomic and structural adjustment programs of low-income developing member countries with protracted balance of payments problems. The objectives are to help these countries establish the conditions for sustained growth, to strengthen their balance of payments positions, and to facilitate orderly relations with creditors and a reduction in trade and payments restrictions. Of the 61 countries then eligible for SAF resources, China and India—the 2 largest—indicated in 1987 that they did not intend to borrow from the facility. They remain, however, fully eligible to do so.

The amount potentially available to each eligible member under a SAF arrangement is equal to 70 percent of the member's quota. Loan disbursements are made in three annual installments equivalent to 20 percent of quota in the first year, 30 percent in the second year, and 20 percent in the third year. SAF loans carry an annual interest rate of 0.5 percent, with repayments to be made semiannually, beginning 5½ years and ending 10 years after each disbursement.

An eligible member seeking to use SAF resources develops, with the assistance of the staffs of the IMF and the World Bank, a policy framework for a three-year adjustment program, which is set out in a policy framework paper (PFP). The PFP describes the authorities' macroeconomic and structural policy objectives and priorities, and the measures that they intend to adopt during the three years. It assesses the member's external financing needs and possible sources of financing. The PFP is also intended as a means of attracting and coordinating external financial and technical assistance in support of the adjustment program. The PFP is reviewed by the Executive Board of the IMF and by a Committee of the Whole of the Executive Directors of the World Bank, and is updated annually on a three-year rolling basis.

The first annual loan disbursement under a SAF arrangement is made available after the Executive Board approves the three-year SAF arrangement and the first annual arrangement under it. In requesting these arrangements, the member is expected to present a program, consistent with the PFP, that describes the specific objectives and policies it will pursue during the three-year program period and the first annual program. The second and third loan disbursements are made available after the IMF approves annual arrangements for those years.

Performance during a program year is monitored with reference to benchmarks that reflect the program's key elements. Financial benchmarks, which are specified on a quarterly basis, usually cover monetary, fiscal, and external debt variables. Structural benchmarks are also usually specified for key structural policies. Although disbursements are not directly related to the observance of benchmarks, deviations would indicate the need for policy adjustments under the subsequent annual program.

The objectives, eligibility, and basic procedural features of the ESAF—including the role of the PFP—parallel those of the SAF. Differences between the SAF and the ESAF relate largely to the monitoring and the strength of the

programs and to the access to, and the funding of, the facilities. The adjustment measures adopted under programs supported by the ESAF are expected to be particularly ambitious, with a view to fostering growth and achieving a substantial strengthening of the balance of payments position during the three-year period. The same 61 countries that were originally eligible to use the SAF are also eligible to use the ESAF. In April 1992, the Executive Board of the IMF added another 11 low-income member countries to the list of SAF/ESAF-eligible members.

When the ESAF was established in 1987, China indicated that it did not intend to use ESAF resources in the present circumstances, and India indicated that, unless its balance of payments position deteriorated fundamentally, it did not expect to borrow from the facility. In February 1992, in the context of the Executive Board's discussion on expansion of SAF/ESAF eligibility, the Indian authorities indicated that there had been a fundamental deterioration of India's balance of payments position and the authorities were thus considering requesting use of ESAF resources.

In 1990, in conjunction with developments in the Middle East, the Executive Board supported the possibility of rephasing and augmenting resources under ESAF arrangements to help members cope with external shocks. The Board agreed that the total amount of an ESAF arrangement could, in contrast to past practice, be augmented on the occasion of a midyear review.

In July 1992, the Board decided to extend the deadline for commitments of resources under new ESAF arrangements by one year to the end of November 1993 and, within this deadline, to permit an additional (fourth) year of ESAF support for eligible members that have had a satisfactory track record and that have adopted strong measures in response to external developments. In addition, the Board agreed to initiate work for a full examination of options for the IMF to continue concessional assistance to low-income countries for the period after November 1993, including a renewal of the ESAF.

ESAF arrangements are funded by ESAF Trust resources, which are derived from special loans and donations that are targeted to total SDR 6 billion, and—for the 61 members originally eligible—by amounts remaining undisbursed under SAF arrangements. Access under ESAF arrangements differs according to members' balance of payments needs and the strength of their adjustment efforts. An eligible member country may borrow a maximum of 250 percent of its quota under a three-year arrangement, although this limit may be increased, under exceptional circumstances, up to a maximum of 350 percent of quota. ESAF access is expected to average about 150 percent of quota for the originally eligible members, and to average about 80 percent of quota for the newly eligible members.

As with SAF loans, ESAF loans are repaid in 10 semiannual installments, beginning 5½ years and ending 10 years after the date of each disbursement. The interest rate on ESAF loans is 0.5 percent a year. Monitoring under ESAF, as under SAF, arrangements is conducted on the basis of quarterly financial benchmarks and structural benchmarks. In addition, performance criteria are on a semiannual basis for financial aggregates and key structural policies. Policies and performance are reviewed at midyear. ESAF loans are disbursed semiannually, initially upon approval of an annual arrangement and subsequently based on the observance of performance criteria and after completion of the midyear review.

Debt Strategy . . .

Guidelines for IMF Support

The Interim Committee, at its meeting in April 1989, recognized the central role the IMF should play in debt-reduction operations through its policy guidance and financial support. It proposed that the IMF provide support, in appropriate cases, for debt and debt-service reduction in connection with appropriate flows of new money from the private sector. The Executive Board has developed broad guidelines—to be kept under review and expected to evolve in the light of experience—for IMF support of such operations.

The IMF's role in the debt strategy is part of its ongoing efforts to adapt its policies to assist member countries in coping with their debt problems. The ultimate objective of the debt strategy is to ensure satisfactory growth with balance of payments viability and to restore spontaneous access to financial markets for the debtor countries. The basic conditions for the success of this strategy continue to be the following:

- growth-oriented adjustment and structural reform in debtor countries;
- a favorable global economic environment; and
- adequate financial support from official (bilateral and multilateral) and private sources.

The Guidelines

The IMF will provide financial support for debt and debt-service reduction under the new guidelines, provided that it is satisfied that

- the member is pursuing an economic adjustment program with

strong elements of structural reform, in the context of a stand-by or an extended arrangement;

• voluntary, market-based debt and debt-service reduction will help the country regain access to financial markets and achieve external payments viability with economic growth; and

• financial support for debt and debt-service reduction represents an efficient use of scarce resources.

In assessing the quality of a member's adjustment and structural reform program, the Executive Board will give emphasis to policies designed to improve the climate for saving and investment, help reverse capital flight, and otherwise attract private capital inflows.

At the 1992 Annual Meetings: Chairman Mohamed Berrada, Minister of Finance of Morocco, (center) with IMF Managing Director Michel Camdessus (left) and World Bank President Lewis T. Preston.

Amount of Support

The guidelines provide that the proportion of IMF resources committed under a stand-by or extended arrangement that could be set aside to finance operations involving a reduction in the stock of debt would generally be about 25 percent, although the exact proportion would be determined on a case-by-case basis. Drawings on set-aside amounts are normally to be phased—in line with the member's performance under its adjustment program—but in some cases more money could be made available in the initial purchase, in accordance with the specific financing needs of the member's debt-reduction plan.

Initial purchases under the set-aside can be made available from the outset of an arrangement if the Executive Board is satisfied that the debt-reduction plan is market related and consistent with the program objectives. Otherwise, purchase rights would accumulate, and purchases would be made available upon completion of the Board's review of the debt-reduction plan.

The IMF is prepared, in certain cases, to provide additional access to its resources, provided that such support would be decisive in promoting cost-effective debt and debt-service reduction and in catalyzing other financial resources. Such additional access—of up to 40 percent of the member's quota—can be used for interest support in connection with debt- or debt-service-reduction operations or for collateralization of principal in reduced-interest par bond exchanges. Actual access is determined on a case-by-case basis in view of the magnitude of the member's balance of payments need, the strength of its adjustment program, and its efforts to contribute its own resources to support debt and debt-service reduction.

The timing of actual disbursements to the member is based on specific operations. The member would be expected to make early repurchases of amounts drawn under a commitment of additional access to the extent that the amounts were not used within an appropriate period for the purposes described in the member's request.

Financing Assurances

The objectives of the IMF's policy on financing assurances are to ensure that

• adjustment programs are fully financed;

• financing is consistent with a return of the country to a viable balance of payments position and with its ability to repay the IMF;

• the burden of financing is shared equitably; and

• orderly relations between the member country and its creditors are maintained or re-established.

In 1989, the IMF modified its policy on financing assurances in view of changes in the financial environment and the possibility that debtors and creditors might, in some cases, need time to agree on appropriate financing packages. The IMF may—on a case-by-case basis—approve an arrangement before the conclusion of a financing package between the member and its commercial bank creditors if prompt IMF support is essential for program implementation, negotiations with a country's creditor banks have begun, and a financing package consistent with external viability is expected to be concluded within a reasonable period.

Income and Charges . . .

Income Reflects Charges on Facilities And Remuneration Paid to Creditor Members

The IMF seeks to achieve a positive net income each financial year to add to its reserves, after both covering its expenses and paying remuneration to all of its creditor members.

Reviews of the IMF's income position take into consideration developments that affect the cost and use of its resources, including the financial consequences of overdue obligations, which are shared between debtor and creditor member countries. Unpaid charges due from a member in arrears to the IMF by six months or more are excluded from income. Under the burden-sharing mechanism, half of these deferred charges is generated by an upward adjustment of the rate of charge and the other half by a downward adjustment of the rate of remuneration, subject to certain limitations.

Additional revenues generated through the burden-sharing and extended-burden-sharing mechanisms are allocated to the IMF's Special Contingent Accounts (SCAs). The first account (SCA-1) was established in 1987 in recognition of the need for additional precautionary balances in view of the protracted overdue obligations of some members. The SCA-1 is financed by equal contributions made by debtor and creditor members: the former contribute by paying an increased rate of charge, the latter by receiving a decreased rate of remuneration

The second account (SCA-2) was established in June 1990 as part of the strengthened cooperative strategy on overdue obligations to the IMF. The resources for the SCA-2 are generated, under the extended-burden-sharing mechanism, by a further increase of 0.35 percent in the rate of charge and a further reduction in the rate of remuneration to yield three times the amount generated by the increased rate of charge, subject to the floor on the rate of remuneration (80.0 percent of the average SDR (special drawing right) interest rate) set in the IMF's Articles of Agreement. These resources are intended to protect the IMF in view of the risks associated with credit extended by the General Resources Account following the encashment of rights earned in the context of IMF-monitored rights-accumulation programs and to provide additional liquidity to contribute to the financing of purchases made following the encashment of rights. The extended-burden-sharing mechanism for the SCA-2 is designed to generate SDR 1 billion over a period of about five years that is expected to conclude in mid-1995.

For financial year 1992 (May 1, 1991–April 30, 1992), the target amount of net income, which was to be added to the IMF's reserves, and the amount to be placed in the SCA-1 were each set at SDR 73.3 million. The target amount was subsequently placed in the SCA-1, and a total of SDR 156.3 million was placed in the SCA-2. Unpaid charges due from members with protracted arrears to the IMF and contributions made to the SCA-1 resulted in an average adjustment to the basic rate of charge of 79 basis points (0.79 percentage point), and in an average adjustment to the rate of remuneration of 82 basis points.

Adjustments under extended burden sharing for the SCA-2 further increased the basic rate of charge by an average of 35 basis points and further reduced the rate of remuneration by an average of 61 basis points, to the floor rate of 80.0 percent of the average SDR interest rate. The cumulative shortfall in the funding of the SCA-2, owing to the floor on the rate of remuneration, amounted to approximately SDR 100 million as of April 30, 1992. For financial year 1992, the adjusted rate of charge on the use of the IMF's ordinary resources averaged 8.02 percent, and the adjusted rate of remuneration averaged 5.69 percent.

Since financial year 1990, the basic rate of charge on the use of ordinary resources has been set as a proportion of the weekly SDR interest rate. The Executive Board set the proportion at 96.6 percent for financial year 1992 and at 97.9 percent for financial year 1993, with the latter rate subject to change after a midyear review. These rates were set so as to achieve a target amount of net income of 5 percent of reserves. For financial year 1992, the average rate of charge was 6.88 percent before adjustments under the burden-sharing mechanisms.

Net income for financial year 1992 actually amounted to SDR 89.9 million, which was added to the IMF's reserves, which rose to SDR 1.56 billion on April 30, 1992. Total precautionary balances, which include amounts in the two Special Contingent Accounts, reached SDR 2.2 billion at the end of financial year 1992.

Arrears . . .

IMF Addresses Problem Of Overdue Financial Obligations

Overdue financial obligations to the IMF remained a serious problem in 1991/92 (May 1, 1991–April 30, 1992). The total amount of overdue obligations rose from SDR 3.4 billion (special drawing rights) at the end of 1990/91 to SDR 3.5 billion at the end of 1991/92, of which almost all was due from members in arrears to the IMF by six months or more. Nevertheless, the absolute increase and the rate of growth of overdue obligations over the financial year were the lowest since 1981/82. The number of members that are ineligible to use the IMF's resources because of their overdue obligations remained at eight, since Zaïre was declared ineligible in September 1991 and Panama settled its arrears to the IMF in February 1992.

The growth rate of overdue obligations in FY 1992 was the lowest in a decade.

The reduction and elimination of overdue financial obligations to the IMF are essential in maintaining the cooperative nature of the institution and in preserving its monetary character. During the past year, the IMF continued to implement the strengthened cooperative strategy for resolving members' arrears problems. This strategy has three main elements: (1) the prevention of new arrears; (2) intensified collaboration among the members concerned, the IMF, and other multilateral and official bilateral financial institutions to resolve existing protracted arrears; and (3) remedial actions to be taken if a country with protracted arrears fails to cooperate with the IMF.

As a complement to preventive measures, the deterrent element of the cooperative strategy was strengthened in 1990. The Executive Board further defined the procedures and timetable for the application of remedial measures, which had been endorsed in 1989, and two new instruments were added—communications with IMF Governors and heads of selected international financial institutions, and a declaration of noncooperation. In addition, the timing of procedures for dealing with members with overdue obligations was tightened. A maximum time limit was set between the date of emergence of arrears to the IMF and a declaration of ineligibility, and the timing of a declaration of noncooperation and the initiation of procedures for compulsory withdrawal was made explicit. The deterrent element also includes the possible suspension of voting rights under the proposed Third Amendment of the IMF's Articles of Agreement, which is expected to become effective by November 30, 1992.

Progress continues to be made under the cooperative strategy. In addition to the countries that have cleared their arrears to the IMF (the Dominican Republic, Guyana, Honduras, and Panama), a number of countries with overdue obligations have continued to pursue policies aimed at restoring growth and external viability. For countries that have not been cooperating with the IMF, remedial measures have been applied in a flexible manner.

Rights Approach

In May 1990, the Interim Committee endorsed the concept of a "rights" approach, under which a member with protracted arrears could earn rights—based on sustained performance during the period of a "rights-accumulation program" monitored by the IMF—to obtain future financing from the IMF once its arrears to the IMF had been cleared. Such programs would generally last about three years. Upon the successful completion of a rights-accumulation program, clearance of the member's arrears, and approval by the IMF of a successor arrangement, the member would be able to "cash in" its accumulated rights to obtain the first disbursement (purchase) under the successor arrangement.

Subsequent to the completion of the rights program, additional financing could be made available from the IMF's general resources, rather than borrowed resources, or, for countries eligible to use the IMF's concessional facilities, from a combination of general resources, the structural adjustment facility (SAF), and the enhanced structural adjustment facility (ESAF), as determined by the Executive Board. The Interim Committee endorsed the proposal that the IMF pledge up to

3 million ounces of gold, if needed, as additional security for the use of ESAF resources in connection with the encashment of accumulated rights.

Eligibility for the rights approach is limited to those of the 11 members with protracted arrears at the end of 1989 that adopt an economic program that can be endorsed by the Executive Board as a rights-accumulation program by the time of the spring 1993 Interim Committee meeting. By April 1992, the Executive Board had endorsed the programs of Peru, Sierra Leone, and Zambia as rights-accumulation programs.

In the context of the collaborative approach, in April 1991, the Executive Board decided to suspend the application of all special charges in the General Resources Account for members in protracted arrears to the IMF that were judged to be actively cooperating with the IMF to resolve their arrears problems. In April 1992, the Executive Board extended this suspension (beginning May 1, 1992) to all members whose overdue obligations to the General Resources Account had been outstanding for six months or more. Special charges will continue to be levied, however, on members with newly overdue obligations and with overdue obligations to the Special Disbursement Account.

Borrowing . . .

Central Banks and Other Official Entities Help Augment IMF Resources

Although the financial structure of the IMF is based on the principle that quota subscriptions are, and should remain, the basic source of the financing it provides to members, borrowing has provided an important temporary supplement to the IMF's ordinary resources.

To date, the IMF has borrowed only from official sources, mainly the treasuries and central banks of member countries, and the Bank for International Settlements. The IMF also has the authority, which so far it has not used, to borrow from private sources.

Borrowings from official sources have been used primarily to finance members' purchases under the present enlarged access policy. Resources drawn from credit lines to the IMF to finance the enlarged access policy were fully utilized by December 1991. Since then, as decided by the Executive Board, the IMF's ordinary resources have been substituted for borrowed resources to finance arrangements under the enlarged access policy. Such substitution is currently authorized for arrangements approved not later than the date the increase in IMF quotas under the Ninth General Review becomes effective, or September 30, 1992, whichever is earlier.

In addition, if it is necessary "to forestall or cope with an impairment of the international monetary system," the IMF may borrow up to SDR 17.0 billion from 11 industrial countries (which are the members of the Group of 10) under the General Arrangements to Borrow (GAB) and a further SDR 1.5 billion under a borrowing arrangement with the Saudi Arabian Monetary Agency (SAMA) in association with the GAB. The GAB was originally set up in 1962, and these arrangements have been extended and revised several times. The present GAB and the associated arrangement with SAMA are effective until December 26, 1993.

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